Was it worth it? Concessions to Greece relative to the rejected draft of 16 February

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On 16 February talks in the Eurogroup failed after Greece rejected a draft statement and received an ultimatum to ask for an extension of the current program before 20 February. Greece sent the letter and the Eurogroup reassembled on 20 February, agreeing on a Statement on Greece. It is very instructive to see what changed between the rejected statement and the one finally agreed. (What Schäuble gained by holding out after 11 February is examined in a companion piece.)

Eurogroup Statement of 20 February

The Eurogroup notes, in the framework of the existing arrangement, the request from the Greek authorities for an extension of the Master Financial Assistance Facility Agreement (MFFA), which is underpinned by a set of commitments.

Meaning: Greece is asking for an extension of the financial support, which it needed to be able to pay back expiring bonds and credit contracts. The Eurogroup puts this in the context of the "existing arrangement", a vague term, which avoids the name program but does point to the fact that – somehow - a reform program is attached to this ongoing financial support.

Changes: In the rejected draft Greece was to ask for a six month "technical extension" of the current program. In the statement, the six months are dropped and replaced by "maximum of four months", to be decided later (see below).

Now it is not a "technical" extension of the "program" any more, but an extension of the funding arrangement, plus vague conditionality. "Technical" tends to refer to working level. Thus, the issue has gone up to a level there things can be decided and changed, not just executed.

Eurogroup Statement of 20 February

The purpose of the extension is the successful completion of the review on the basis of the conditions in the current arrangement, making best use of the given flexibility which will be considered jointly with the Greek authorities and the institutions. This extension would also bridge the time for discussions on a possible follow-up arrangement between the Eurogroup, the institutions and Greece.

Meaning: Neither the reform program nor the review of it have been completed in time, which would mean among other things that the ECB would normally not fund Greek banks any more after the expiration of the un-reviewed program. The extension avoids such consequences.

Changes: There is no mention any more of "successful conclusion of the program", nor of "program" in the text. Instead a successful conclusion of the review of the "conditions in the current arrangement" is the new condition. This allows the Greek government to continue to say that the old program cannot be successful. It also allows for changes in the program, as "conditions of the arrangement" is deliberately more vague.

Eurogroup Statement of 20 February

The Greek authorities will present a first list of reform measures, based on the current arrangement, by the end of Monday February 23. The institutions will provide a first view whether this is sufficiently comprehensive to be a valid starting point for a successful conclusion of the review. This list will be further specified and then agreed with the institutions by the end of April.

Meaning: The measures already in the program agreed with the Troika are not sacrosanct any more. Athens can come up with their own list, taking the current "arrangement" only as the basis. Arrangement is not equivalent to the program, as it is a more vague term. The new Greek government is thus accepted as a negotiation partner, not as a passive executor of all the measures that have been agreed by the former government. It is accepted that this list of measures, if considered sufficient by the "institutions" can be the basis of the required successful conclusion of the review. "Institutions" instead of "troika" means – according to explanations by Varoufakis on why he rejected the Troika - that the Greek government will put their proposals to and have them be judged by the three institutions themselves, not by the group of emissaries called the Troika. The program does not need to be concluded, only the review. It is Athens which further specifies the list after it has been assessed by the institutions and the institutions will agree or not at the end of April, making it clear that the institutions do not draw up a list of measures.

Changes: The rejected draft used the word program throughout and allowed the plans and priorities of the Greek government only to enter into the execution of that program as long as the "built-in flexibility" allowed this.

Thus, there was no mention of a list of reform measures in the rejected draft, as only the pre-committed measures were meant to be executed.

Eurogroup Statement of 20 February

Only approval of the conclusion of the review of the extended arrangement by the institutions in turn will allow for any disbursement of the outstanding tranche of the current EFSF programme and the transfer of the 2014 SMP profits. Both are again subject to approval by the Eurogroup.

Meaning: The Eurogroup of finance ministers will decide, but only after the "institutions" have given or withheld their seal of approval.

Eurogroup Statement of 20 February

In view of the assessment of the institutions the Eurogroup agrees that the funds, so far available in the HFSF buffer, should be held by the EFSF, free of third party rights for the duration of the MFFA extension. The funds continue to be available for the duration of the MFFA extension and can only be used for bank recapitalisation and resolution costs. They will only be released on request by the ECB/SSM.

Meaning: Greece can use the remaining funds in the support program to support its banks, if needed, as it had requested, but the ECB has to deem it necessary, which is not likely to be a big hurdle.

Eurogroup Statement of 20 February

In this light, we welcome the commitment by the Greek authorities to work in close agreement with European and international institutions and partners. Against this background we recall the independence of the European Central Bank. We also agreed that the IMF would continue to play its role.

Meaning: Obvious.

Change: The agreed Statement adds the reference to the independence of the ECB. It is unclear, why this is done and why at this place of the text.

Eurogroup Statement of 20 February

The Greek authorities have expressed their strong commitment to a broader and deeper structural reform process aimed at durably improving growth and employment prospects, ensuring stability and resilience of the financial sector and enhancing social fairness. The authorities commit to implementing long overdue reforms to tackle corruption and tax evasion, and improving the efficiency of the public sector. In this context, the Greek authorities undertake to make best use of the continued provision of technical assistance.

Meaning: Obvious

Changes: “enhancing social fairness” added.

“efficiency of public sector” replaces “efficiency of public administration”

Eurogroup Statement of 20 February

The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely.

Meaning: Greece will not ask for a haircut. Although, obligations could be changed according to the Eurogroup Statement of November 2012

Change: “fully and timely” added, making the commitment stronger.

Eurogroup Statement of 20 February

The Greek authorities have also committed to ensure the appropriate primary fiscal surpluses or financing proceeds required to guarantee debt sustainability in line with the November 2012 Eurogroup statement*. The institutions will, for the 2015 primary surplus target, take the economic circumstances in 2015 into account.*

Meaning: The government will ensure that the surplus of income over expenditure, leaving out debt service, is high enough to achieve the steep falls in the debt to gdp relation foreseen in the November 2012 statement. This sounds tough. However, the 2012 statement promises Athens further concessions like lower rates or extended maturities of debt, if they achieve a primary surplus, which they did. Varoufakis claims that such concessions should be taken into consideration when calculating the primary surplus required for debt sustainability. The changes from the rejected draft suggest that the Eurogroup subscribes to this view at least to some degree. The last sentence makes it clear that a surplus should only be aimed at if and to the degree that it is not self defeating, by ruining the economy and thus raising the debt to gdp ratio, instead of lowering it.

Changes: Before it said “and financing”, now its says “or” financing proceeds, an important change. "Or" means that if financing is obtained that does not improve the primary fiscal surplus, but improves debt sustainability, e.g. lower interest rates, this will be good enough. It is unclear at this point, what the change from financing to “financing proceeds” means, but it probably means something.

Most important change of the whole document: Addition of “The institutions will, for the 2015 primary surplus target, take the economic circumstances in 2015 into account.” Excessive, self-defeating austerity is off. Only the target for 2015 is mentioned, because everything further out would have to be part of a new arrangement, still to be negotiated.

Eliminated: “Moreover, any new measures should be funded, and not endanger financial stability.” Probably the phrase was simply deemed unnecessary, as the institutions must give their seal of approval to the measures listed by Athens.

Eurogroup Statement of 20 February

In light of these commitments, we welcome that in a number of areas the Greek policy priorities can contribute to a strengthening and better implementation of the current arrangement. The Greek authorities commit to refrain from any rollback of measures and unilateral changes to the policies and structural reforms that would negatively impact fiscal targets, economic recovery or financial stability, as assessed by the institutions.

Meaning: The Eurogroup admits that Athens has a point, that some measures in the programs were counterproductive and that important measures were not included.

Changes: Unilateral actions were meant to be summarily prohibited in the rejected draft. Now, rollback of measures, and “unilateral changes to policies and structural reforms” are allowed, if they do not negatively impact fiscal targets, economic recovery or financial stability. This is a huge gain of policy authority by Athens. In the same vein, the phrase: “will work in close agreement with its European and international partners, especially in the field of tax policy, privatisation, labour market reforms, financial sector, and pensions” has been cut out, giving the government leeway to decide in these hotly contested fields by themselves as long as the above mentioned conditions are met.

Eurogroup Statement of 20 February

On the basis of the request, the commitments by the Greek authorities, the advice of the institutions, and today's agreement, we will launch the national procedures with a view to *reaching a final decision on the extension of the current EFSF Master Financial Assistance Facility Agreement for up to four months by the EFSF Board of Directors. We also invite the institutions and the Greek authorities to resume immediately the work that would allow the successful conclusion of the review.*

Meaning: The parliaments of Finnland, Germany and some other countries will be asked to vote on this immediately

Eurogroup Statement of 20 February

We remain committed to provide adequate support to Greece until it has regained full market access as long as it honors its commitments within the agreed framework.

Meaning: No seal of approval, no money

Summary assessment:

Was it worth the hassle to reject the draft of 16 February, just to accept the statement four days later? **For Athens it most certainly was.** It got the promise that no self-defeating, excessive austerity would be asked of it any more, the assurance that it could devise its own economic and social policies, as long as htey did not impact negatively on the interests of its partners, rather than having to execute and leaving in place all the measures accepted by the former government and strongly rejected by the people. **These are huge improvements for Athens, with no significant counterbalancing downside compared to 16 February.**

Was it worth it for Schäuble? What did he gain by blocking Varoufakis'11 February proposal?

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